

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

* * * * *

In the Matter of:

THE APPLICATION OF NORTH SHELBY)	
WATER COMPANY FOR APPROVAL OF)	
A PURCHASED WATER ADJUSTMENT)	CASE NO. 8285
CLAUSE AND A MOTION TO ADJUST)	
RATES IN ACCORDANCE WITH SAID)	
CLAUSE)	

O R D E R

On July 13, 1981, the North Shelby Water Company ("North Shelby") filed an application with the Public Service Commission for approval of a purchased water adjustment clause and permission to increase the rates charged to its customers in accordance with the provisions of the requested purchased water adjustment clause.

On June 10, 1981, North Shelby's supplier, Shelbyville Municipal Water and Sewer Commission, notified North Shelby that, effective July 1, 1981, the cost of water would increase from \$.58 to \$1.00 per 1,000 gallons. This represents a 73 percent increase over the previous rate charged to North Shelby. The supplier stated that it will further increase the cost of water by an additional 20 percent per 1,000 gallons effective July 1, 1982.

On August 28, 1981, a hearing was held in the Commission's offices in Frankfort, Kentucky, to determine the need for a purchased water adjustment clause and the reasonableness of a rate adjustment to reflect the July 1, 1981, increased cost of water.

No intervenors were present at the hearing. The entire record, including North Shelby's responses to numerous requests for information, has been submitted for final determination by this Commission.

Commentary

Prior to approving increased rates pursuant to purchased water cost increases, the Commission must examine an applicant's financial condition and determine whether it may absorb all or part of the increased cost. If there is a potential for absorption, the Commission will adjust rates to offset only that portion of the increased water cost which cannot be absorbed.

Test Period

For the purpose of determining the reasonableness of the proposed purchased water adjustment and increase in rates, the Commission has accepted the year ending May 31, 1981, as the test period in this matter. Adjustments deemed proper and reasonable have been included to more accurately reflect current operating conditions.

Revenues and Expenses

North Shelby proposed to adjust revenues by \$69,945 to offset the increased cost of purchased water. No other adjustments were proposed. The Commission, after careful examination of North Shelby's financial condition, made the following adjustments to expenses to more fairly represent the actual operating expenses of North Shelby:

(1) Maintenance of Distribution Mains - The Commission finds that \$1,975 of the expense for maintenance of distribution mains resulting from an explosion severing the mains was reimbursed subsequent to the test period. The Commission has, therefore, reduced operating expenses by this amount.

(2) Depreciation Expense - The Commission finds that \$25,076 of depreciation expense has been charged yearly on contributed property. It is the policy of the Commission that a utility not recover costs on contributed property. Therefore, an adjustment of \$25,076 has been made to reduce this expense to \$35,518 which represents depreciation on plant in service net of contributed capital.

Although North Shelby only requested approval of its purchased water adjustment clause and authority to increase its rates pursuant thereto, the evidence presented at the hearing indicated that adjustments should be made to the test year expenses for depreciation and maintenance of distribution mains. Should North Shelby have additional adjustments to propose, it may do so by an application for rehearing pursuant to KRS 278.400.

The test period operations have been adjusted to produce the following results:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 399,030	\$ -0-	\$ 399,030
Operating Expenses	<u>289,485</u>	<u>42,895</u>	<u>332,380</u>
Net Operating Income	\$ 109,545	\$ (42,895)	\$ 66,650

Revenue Requirements

North Shelby's debt service, based on the end-of-period outstanding debt, is \$98,187. The Commission finds that the

approval of rates sufficient to provide a 1.2 x debt service coverage and meet the operating expenses is fair, just and reasonable. Therefore, the Commission has calculated North Shelby's increase in operating revenues by means of the purchased water adjustment as follows:

1.2 x Debt Service Coverage	\$117,825
Adjusted Operating Expenses (including depreciation)	332,385
Subtotal	<u>\$450,210</u>
Less: Adjusted Operating Revenues	399,030
Unrestricted Miscellaneous Revenues	2,980
Revenue Requirement	<u><u>\$ 48,200</u></u>

Summary

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

(1) The cost of wholesale water to North Shelby from its supplier, Shelbyville Municipal Water and Sewer Commission, was increased from \$0.58 to \$1.00 per 1,000 gallons effective July 1, 1981, and amounts to approximately \$69,945 on an annual basis.

(2) After taking into consideration the above-mentioned adjustments to expenses, North Shelby should absorb a portion of the increased cost of purchased water.

(3) The rates proposed by North Shelby produce additional revenue in excess of the increase found fair by the Commission and should be denied upon application of KRS 278.030.

(4) The rates in Appendix A, attached hereto, will provide additional revenues of \$48,200 and are the fair, just and

reasonable rates to be charged for water service on and after the date of this Order.

(5) North Shelby does not have a tariff on file which provides for a computation of a purchased water adjustment clause rate in accordance with 807 KAR 5:067. Appendix B to this Order is an example of a tariff which meets the requirements of 807 KAR 5:067.

(6) The cost of purchased water included in North Shelby's basic rates for future filings under 807 KAR 5:067 is as follows:

<u>Supplier</u>	<u>Rate</u>
Shelbyville Municipal Water and Sewer Commission	\$1.00 per 1,000 gallons

IT IS THEREFORE ORDERED that the rates proposed by North Shelby insofar as they produce revenue in excess of \$48,200 be and they hereby are denied.

IT IS FURTHER ORDERED that the rates in Appendix A, attached hereto and made a part hereof, are the fair, just and reasonable rates to be charged for water service on and after the date of this Order.

IT IS FURTHER ORDERED that North Shelby shall file with this Commission within 30 days of the date of this Order a tariff which provides for the computation of the rate required to pass through future charges in the cost of purchased water under 807 KAR 5:067.

IT IS FURTHER ORDERED that for the purpose of future rate adjustments, the cost of purchased water included in the base rates is as follows:

Supplier

Rate

Shelbyville Municipal Water
and Sewer Commission

\$1.00 per 1,000 gallons

IT IS FURTHER ORDERED that North Shelby shall file with
this Commission within 30 days of the date of this Order its
revised tariff sheets setting forth the rates approved herein.

Done at Frankfort, Kentucky, this 8th day of December, 1981.

PUBLIC SERVICE COMMISSION

Martin M. Toth
Chairman

Katherine Bandall
Vice Chairman

Len Carney
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION OF KENTUCKY IN CASE NO. 8285 DATED DECEMBER 8, 1981

The following rates and charges are prescribed for the customers in the area served by North Shelby Water Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

RATES: Monthly

First	2,000 gallons	\$ 8.64 Minimum Bill
Next	3,000 gallons	3.32 per 1,000 gallons
Next	5,000 gallons	2.32 per 1,000 gallons
Next	40,000 gallons	1.82 per 1,000 gallons
All Over	50,000 gallons	1.32 per 1,000 gallons

MINIMUM CHARGES:

Meter Size

5/8" or 3/4"
1 "
1½ "
2 "
3 "

Minimum Monthly Bill

\$ 8.64
18.60
30.20
39.30
75.70

APPENDIX B

Form for Celling Rate Schedules

For _____
Community, Town or City

P.S.C. NO. _____

SHEET NO. _____

CANCELLING P.S.C. NO. _____

SHEET NO. _____

Name of Issuing Corporation _____

CLASSIFICATION OF SERVICE

	RATE PER UNIT
<p align="center"><u>PURCHASED WATER ADJUSTMENT CLAUSE</u></p> <p>Tabulation Form to be used for purchased water adjustments in accordance with 807 KAR 5:067, Purchased Water Adjustment Clause, as adopted by the Public Service Commission.</p>	
1. Volume of water purchased for 12-month period ended _____ (which is within 3 months of effective date of supplier's rate change) <u>1</u> /	_____ M Gal.
2. Cost at new rates	\$ _____
3. Cost at Base Rate	\$ _____
4. Total change in cost (Item 2 minus Item 3)	\$ _____
5. Volume sold for same period as in Item 1	_____ M Gal.
6. PWA per M gallon sold (Item 4 divided by Item 5)	_____ ¢
<p>Note 1: Item 1 cannot, for this computation table, exceed Item 5 divided by .85.</p>	

DATE OF ISSUE _____

DATE EFFECTIVE _____

ISSUED BY _____
Name of Officer

TITLE _____

Issued by authority of an Order of the Public Service Commission of Kentucky
in Case No. _____ dated _____.

Form for Celling Rate Schedules

For _____
Community, Town or City

P.S.C. NO. _____

_____ SHEET NO. _____

Name of Issuing Corporation

CANCELLING P.S.C. NO. _____

_____ SHEET NO. _____

CLASSIFICATION OF SERVICE

	RATE PER UNIT
<u>PURCHASED WATER ADJUSTMENT CLAUSE (Cont.)</u>	
In the event a refund is received from the supplier for amounts previously paid, the following tabulations will be made:	
1. Total refund received	\$ _____
2. Total amount of water estimated to be sold during 2 month period beginning with the first day of the month following receipt of the refund	_____ M Gal.
3. Refund factor per unit of water sold (Item 1 divided by Item 2)	_____ ¢
4. The refund factor may be adjusted in the final month to more accurately reflect the amount to be refunded.	

DATE OF ISSUE _____

DATE EFFECTIVE _____

ISSUED BY _____
Name of Officer

TITLE _____

Issued by authority of an Order of the Public Service Commission of Kentucky
in Case No. _____ dated _____.